

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005, 2006 and 2007

Region III Housing Authority – FY2005, 2006 and 2007.

Notes Payable	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due within 1 year
Capital Concepts #1	\$ 73,612	\$ -	\$ -	\$ 73,612	\$ -
Neighborhood - Bonnie Ln	67,500	-	-	67,500	-
Sunwest Trust-REC Payable	123,643	-	(6,837)	116,806	8,117
Capital Concepts #2	-	75,000	-	75,000	-
Capital Concepts #3	-	20,000	(20,000)	-	-
Total Notes Payable	<u>\$ 264,755</u>	<u>\$ 95,000</u>	<u>\$ (26,837)</u>	<u>\$ 332,918</u>	<u>\$ 8,117</u>

Notes Payable	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Due within 1 year
Capital Concepts #1	\$ 73,612	\$ -	\$ -	\$ 73,612	\$ -
Neighborhood - Bonnie Ln	67,500	-	-	67,500	-
Sunwest Trust-REC Payable	116,806	-	(8,117)	108,689	108,690
Capital Concepts #2	75,000	-	-	75,000	-
Total Notes Payable	<u>\$ 332,918</u>	<u>\$ -</u>	<u>\$ (8,117)</u>	<u>\$ 324,801</u>	<u>\$ 108,690</u>

Notes Payable	Balance 12/31/06	Additions	Deletions	Balance 12/31/07	Due within 1 year
Capital Concepts #1	\$ 73,612	\$ -	\$ (73,612)	\$ -	\$ -
Neighborhood - Bonnie Ln	67,500	-	(67,500)	-	-
Sunwest Trust-REC Payable	108,689	-	(108,689)	-	-
Capital Concepts #2	75,000	-	(75,000)	-	-
Total Notes Payable	<u>\$ 324,801</u>	<u>\$ -</u>	<u>\$ (324,801)</u>	<u>\$ -</u>	<u>\$ -</u>

Region III Housing Authority – FY2005, 2006 and 2007

Series A & Series B	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due within 1 year
Bond Payable	\$ 4,060,174	\$ 1,066,826	\$ (127,000)	\$ 5,000,000	\$ 5,000
Total Bonds Payable	<u>\$ 4,060,174</u>	<u>\$ 1,066,826</u>	<u>\$ (127,000)</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000</u>

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	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Due within 1 year
Series A & Series B					
Bonds Payable	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000	\$ -
Total Bonds Payable	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>

	Balance 12/31/06	Additions	Deletions	Balance 12/31/07	Due within 1 year
Series A & Series B					
Bonds Payable	\$ 5,000,000	\$ -	\$ (662,500)	\$ 4,337,500	\$ -
Total Bonds Payable	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ (662,500)</u>	<u>\$ 4,337,500</u>	<u>\$ -</u>

H. Lease-Purchase Program Series 2003 A Bonds

On February 1, 2003, pursuant to a trust agreement by and between Region III (Issuer) and Financial Institution (Trustee), a \$27,625,000 Region III Housing Authority New Mexico, Inc. Variable Lease Revenue Bonds (Lease-Purchase Program) Series 2003 A (Bonds) were issued. The Bonds do not constitute indebtedness or a loan to Region III. The proceeds of the Bonds were used by the Trustee to purchase mortgage loans. The mortgage loans provide funds for Region III's acquisition of homes which are selected by participants enrolled in the lease-purchase program.

I. Bonds Payable – Series 2003A and Series 2004 A

In 2003 and 2004, the New Mexico State Investment Office (SIO) purchased two separate bonds issued by Region III, Inc. for \$2,500,000 each. The bonds were authorized by Region III and issued to finance the acquisition and rehabilitation of single family residences for sale to persons of low income. The first bond, issued on July 1, 2003, was a \$2,500,000 Series 2003 Bond under an Indenture of Trust (Indenture) dated July 1, 2003. On April 4, 2004, a First Supplemental Trust Indenture (Supplemental Indenture) was executed which amended the original indenture and issued a second \$2,500,000 Series 2004 Bond. The Supplemental Indenture secured both the Series 2003 and Series 2004 Bonds which matured on June 1, 2006 and June 1, 2007, respectively.

The Supplemental Indenture provided that a Trustee bank would hold the proceeds of the bond issues with \$4,404,000 available for acquisition and rehabilitation. The Supplemental Indenture also allocated \$500,000 to a reserve fund for payment of interest on the Bonds and \$96,000 to the costs of issuing the bonds. Section 3.11 of

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the Indenture required Region III to “upon receipt, pay to the Trustee bank, all proceeds of the sales of single family residences acquired by Region III, pursuant to the Indenture.” The net profits were to be deposited into a reserve account by the Trustee and used later to buy more property.

In May 2006, Region III informed the SIO that it could not repay the Series 2003 Bond and requested an extension of the maturity date. The extension was not granted and Region III defaulted on the bonds.

It appears that Region III paid on a few of the bond requisitions; however, it also appears that the Trustee, the Bank of Albuquerque, allocated the money paid by Region III towards the semi-interest expense due from Region III for the outstanding bond balance. Therefore, because the Trustee used the money to pay interest payments and not to pay back the bond requisition, there is a discrepancy in the outstanding bond balance. Region III shows an outstanding bond balance of \$4,337,500 for bonds payable, whereas the Bank of Albuquerque shows an outstanding balance of \$5,000,000. The \$5,000,000 balance amounts to \$4,404,000 for acquisition and rehabilitation, \$96,000 for the cost of issuance account, and \$500,000 for the reserve fund.

J. Changes in Long-Term Debt

The various notes held by financial institutions under Region III’s lease-purchase program mature at various dates and are secured by housing property held in inventory.

The following is a schedule of the changes in long-term debt for the years ended December 31, 2005, 2006 and 2007:

Description	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due Within 1 Year
Lease Purchase					
Notes Payable	\$ 2,931,618	\$ 1,970,966	\$ (167,898)	\$ 4,734,686	\$ 62,819
Total	<u>\$ 2,931,618</u>	<u>\$ 1,970,966</u>	<u>\$ (167,898)</u>	<u>\$ 4,734,686</u>	<u>\$ 62,819</u>

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Description	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Due Within 1 Year
Lease Purchase					
Notes Payable	\$ 4,734,686	\$ -	\$ (951,438)	\$ 3,783,248	\$ 53,622
Total	<u>\$ 4,734,686</u>	<u>\$ -</u>	<u>\$ (951,438)</u>	<u>\$ 3,783,248</u>	<u>\$ 53,622</u>

Description	Balance 12/31/06	Additions	Deletions	Balance 12/31/07	Due Within 1 Year
Lease Purchase					
Notes Payable	\$ 3,783,248	\$ -	\$ (244,107)	\$ 3,539,141	\$ 53,815
Total	<u>\$ 3,783,248</u>	<u>\$ -</u>	<u>\$ (244,107)</u>	<u>\$ 3,539,141</u>	<u>\$ 53,815</u>

The following schedule represents the minimum payments due over the life of these loans:

Notes Payable ending December 31, 2005

Due in Fiscal Year Ending	Principal	Interest	Total
2006	\$ 62,819	\$ 277,642	\$ 340,461
2007	66,280	278,747	345,027
2008	70,344	274,562	344,906
2009	74,680	264,227	338,907
2010	79,318	265,624	344,942
2011-2015	476,019	1,248,514	1,724,533
2016-2020	641,969	1,082,564	1,724,533
2021-2025	865,811	858,687	1,724,498
2026-2030	1,165,086	558,954	1,724,040
2031-2040	1,232,359	160,718	1,393,077
	<u>\$ 4,734,685</u>	<u>\$ 5,270,239</u>	<u>\$ 10,004,924</u>

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Notes Payable ending December 31, 2006

Due in Fiscal Year Ending	Principal	Interest	Total
2007	53,622	224,721	278,343
2008	56,785	221,437	278,222
2009	60,269	217,953	278,222
2010	63,968	214,254	278,222
2011	67,806	210,416	278,222
2012-2016	379,931	946,902	1,326,833
2017-2021	511,724	821,764	1,333,488
2022-2026	689,242	653,212	1,342,454
2027-2031	925,705	428,229	1,353,934
2032-2040	974,196	106,617	1,080,813
	<u>\$ 3,783,248</u>	<u>\$ 4,045,505</u>	<u>\$ 7,828,753</u>

Notes Payable ending December 31, 2007

Due in Fiscal Year Ending	Principal	Interest	Total
2008	\$ 53,815	\$ 210,077	\$ 263,892
2009	57,117	206,775	263,892
2010	60,621	203,271	263,892
2011	64,258	199,634	263,892
2012	68,114	195,778	263,892
2013-2017	354,942	841,095	1,196,037
2018-2022	478,029	730,114	1,208,143
2023-2027	643,806	580,643	1,224,449
2028-2032	864,475	381,246	1,245,721
2033-2040	893,964	79,367	973,331
	<u>\$ 3,539,141</u>	<u>\$ 3,628,000</u>	<u>\$ 7,167,141</u>

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K. Schedule of Properties for which Region III Obtained Duplicate Financing - Bond Proceeds and Mortgages

It appears that Region III over-borrowed on several properties. In certain cases, Region III drew bond proceeds to purchase a property for which it had already obtained a mortgage. In other cases, Region III obtained a mortgage on a property it had already purchased with bond proceeds. The indentures for the Series 2003A and Series 2004A Bonds did not require that liens/first mortgages be filed for any property purchased with bond proceeds.

In fiscal year ended December 31, 2005, Region III had 14 properties that had both bonds payable and mortgages payable on them. The 14 properties had a total historical cost of \$1,289,633, total bonds payable of \$1,260,226 and total mortgages payable of \$1,364,121. This creates negative equity of (\$1,334,714) on these properties.

In fiscal year ended December 31, 2006, Region III had 12 properties that had both bonds payables and mortgages payables on them. The 12 properties had a total historical cost of \$1,158,988, a total bonds payable of \$1,132,026 and total mortgages payables of \$1,188,384. This creates negative equity of (\$1,161,422) on these properties.

In fiscal year ended December 31, 2007, Region III had 11 properties that had both bonds payable and a mortgages payable on them. The 11 properties had a total historical cost of \$1,040,572, a total bonds payable of \$1,020,254 and total mortgages payable of \$1,064,523. This creates negative equity of (\$1,044,205) on these properties.

The following table shows negative equities for fiscal years ending December 31, 2005, 2006 and 2007.

	Year	Property Value	Bonds Payable	Mortgage Payable	Deficit
Properties with double financing -14	12/31/2005	\$1,289,633	\$(1,260,226)	\$(1,364,121)	\$(1,334,714)
Properties with double financing -12	12/31/2006	\$1,158,988	\$(1,132,026)	\$(1,188,384)	\$(1,161,422)
Properties with double financing -11	12/31/2007	\$1,040,572	\$(1,020,254)	\$(1,064,523)	\$(1,044,205)

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L. Rent Income

On February 1, 2001, Region III entered into a lease agreement with Gorman Company, for a five-year lease beginning April 1, 2001 and terminating on March 31, 2006. The lease was for the use of shared office space at Region III's building located at 4605 Fourth Street N.W. in Albuquerque. Total rent collected by Region III during the fiscal year ended December 31, 2005 was \$3,241. There were no receipts collected by Region III for fiscal year ended December 31, 2006 and 2007 because the lease was not renewed.

M. Inventory

In August 2006, Region III contracted with MRCOG to review and provide managerial assistance. MRCOG did not receive a capital asset inventory list from Region III for 2005. In addition, an inventory list was not provided for the time period during which MRCOG was contracted to provide financial and operational assistance. Therefore, it appears an annual physical inventory was not conducted for fiscal years ended December 31, 2005, 2006 and 2007.

IV. Other Information

A. Conduit Debt

From time to time, Region III has issued multifamily housing revenue bonds for the purpose of providing funds to private sector entities for the acquisition, construction and rehabilitation of multifamily housing complexes. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the facilities transfers to the private sector entity served by the bond issue. Repayment of the bonds is from the net revenues of the multifamily housing complexes. Region III customarily received an issuer fee. Region III is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. There was no documentation regarding the number of bonds outstanding and the aggregate principal amount payable at December 31, 2005, 2006 and 2007. Rather, the information was obtained by contacting the appropriate trust departments for the bonds.

B. Employee Retirement Benefits

Region III offers a tax-sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b) for all full-time employees. Employees may elect to defer a portion of their wages and Region III has the option to make a discretionary

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matching contribution. Plan expenses incurred by Region III for the fiscal years ended December 31, 2005, 2006 and 2007 were \$57,548, \$51,844 and \$-0-. Region III's operations were transferred to MRCOG during August and September 2006, and it appears Region III participating employees withdrew all retirement funds in their accounts by August 2006. Therefore, there were no expenses incurred by Region III for the fiscal year ended December 31, 2007.

Region III maintains and administers an eligible deferred compensation plan in accordance with Section 457 of the Internal Revenue Code (IRC). Region III's contributions to the plan equal 15% of gross salaries for qualified employees. The contributions by Region III violated Section 457 of the IRC. Additionally, the contributions possibly violate the anti-donation clause of Article IX, Section 14 of the Constitution of the State of New Mexico. This contribution was \$27,819 for the fiscal year ended December 31, 2005 and \$19,076 for the fiscal year ended December 31, 2006. There were no contributions made for the fiscal year ended December 31, 2007.

C. Risk Management

Per our review of the general ledger no insurance premiums were paid during this time period.

D. Related Party Transactions

Region III sold two properties to Region III employees. It also sold one property to a member of HEI's Board of Directors. These properties will be sold with the net proceeds to be transferred to the SIO.

E. Schedule of Bond Issuer's Fee Received

Region III allowed use of its powers for ten bond issues for which they will collect 1/8th of 1% of the total outstanding bond amount per year for the life of the bond. The bonds are serviced by various financial institutions and Region III assumes no obligation thereof. Expected total revenues are as follows:

For Fiscal Year Ended December 31, 2005:

	<u>Annual Amount</u>	<u>Remaining Bond Life</u>	<u>Total Expected Revenues</u>
<u>Bonds issued in 2003 or prior</u>			
El Paseo Phase II (2002)	\$ 9,371	40 years	\$340,000
El Paseo Phase II (2003A)	12,613	30 years	\$243,750
Arbor Apartments (2003A-1)	12,375	27 years	\$324,844

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Brentwood Gardens (2001A)	6,493	27 years	\$170,437
Villa Del Oso (2003-A)	16,744	32 years	\$499,000
Vista Grande (2003)	<u>5,238</u>	38 years	<u>\$205,438</u>
Total for 2003/Prior Issuance	<u>\$ 62,834</u>		<u>\$1,783,469</u>

Bonds issued in 2004

Enchanted Vista (2004A)	\$ 1,019	39 years	\$390,000
El Pueblo / Madera (2004A)	<u>-0-</u>	37 years	<u>\$60,125</u>
Total for 2004 Issuance	<u>\$ 1,019</u>		<u>\$450,125</u>

Bonds issued in 2005

La Resolana (2005)	\$ 9,250	27 years	\$249,750
Ladera (2005)	<u>6,250</u>	37 years	<u>\$323,750</u>
Total for 2004 Issuance	<u>\$ 15,500</u>		<u>\$573,500</u>

Grand Total	<u>\$ 79,353</u>		<u>\$2,807,094</u>
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For Fiscal Year Ended December 31, 2006:

	Annual	Remaining	Total
<u>Bonds issued in 2003 or prior</u>	<u>Amount</u>	<u>Bond Life</u>	<u>Expected Revenues</u>
El Paseo Phase II (2002)	\$ 9,351	39 years	\$331,500
El Paseo Phase II (2003A)	-0-	29 years	235,625
Arbor Apartments (2003A-1)	19,242	26 years	312,813
Brentwood Gardens (2001A)	6,365	26 years	164,125
Villa Del Oso (2003-A)	16,566	31 years	483,406
Vista Grande (2003)	<u>5,193</u>	37 years	<u>200,031</u>
Total for 2003/Prior Issuance	<u>\$ 56,717</u>		<u>\$1,727,500</u>

Bonds issued in 2004

Enchanted Vista (2004A)	\$ 10,938	38 years	\$380,000
El Pueblo / Madera (2004A)	<u>-0-</u>	36 years	<u>58,500</u>
Total for 2004 Issuance	<u>\$ 10,938</u>		<u>\$ 438,500</u>

Bonds issued in 2005

La Resolana (2005)	<u>\$ 9,043</u>	27 years	<u>\$240,500</u>
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Grand Total	<u>\$ 76,698</u>	<u>\$2,406,500</u>
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For Fiscal Year Ended December 31, 2007:

<u>Bonds issued in 2003 or prior</u>	<u>Annual Amount</u>	<u>Remaining Bond Life</u>	<u>Total Expected Revenues</u>
El Paseo Phase II (2002)	\$ 9,242	38 years	\$323,000
El Paseo Phase II (2003A)	8,125	28 years	227,500
Brentwood Gardens (2001A)	6,228	25 years	157,813
Villa Del Oso (2003-A)	13,661	30 years	467,813
Vista Grande (2003)	<u>5,153</u>	36 years	<u>194,625</u>
Total for 2003/Prior Issuance	<u>\$ 42,409</u>		<u>\$1,370,751</u>
 <u>Bonds issued in 2004</u>			
Enchanted Vista (2004A)	\$ 10,934	37 years	\$ 350,000
El Pueblo / Madiera (2004A)	<u>1,500</u>	35 years	<u>42,250</u>
Total for 2004 Issuance	<u>\$ 12,434</u>		<u>\$ 392,250</u>
 <u>Bonds issued in 2005</u>			
La Resolana (2005)	<u>\$ 8,894</u>	26 years	<u>\$ 240,500</u>
 Grand Total	 <u>\$ 63,737</u>		 <u>\$ 2,003,501</u>

F. Commitment and Contingencies

Region III was a defendant in a lawsuit brought by Capital Concepts which was dismissed by the courts. Region III hired Wiggins, Williams & Wiggins, P.C. as its legal representation. There were unpaid fees in the amount of \$2,609 (billed and unbilled) to Wiggins, Williams & Wiggins, P.C. as of December 31, 2007 for services rendered.

G. Subsequent Events

Region III sold nine of the lease-purchase properties to the tenants that were living in the homes at that time.

Also, the Trustee, Bank of Albuquerque, transferred to SIO the bond accounts with the remaining balance from the reserve fund of \$137,036 on February 11, 2008.

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H. Deficit Net Assets

Region III and HEI had a net asset deficit balance of (\$2,423,969), (\$2,946,115) and (\$3,261,318) for the respective fiscal years ended December 31, 2005, 2006 and 2007.

I. Going Concern

Region III and HEI incurred operating losses of \$1,934,155, \$519,747 and \$42,268 for the respective fiscal years ended December 31, 2005, 2006 and 2007.

J. Expenditures

1. Payroll Expenditures

Due to lack of documentation payroll was not able to be tested.

2. Travel and Per Diem Expenditures

Between January 15, 2006 and February 21, 2006, the Executive Director of Region III and HEI was paid per diem by Region III at a daily rate of \$114 per day for a total of 37 days totaling \$4,218. It appears that the payments were made for the Executive Director's overnight per diem expenses in Santa Fe, presumably for the legislative session. However, there is no supporting documentation verifying that he stayed in Santa Fe for 37 days straight. Also, the Executive Director did not obtain appropriate approval from Region III for his travel and per diem requests.

Furthermore, the Executive Director also requested and received per diem from HEI for the same trip. The Executive Director used the same Travel/Per Diem Request Forms, except for the title of the reimbursing entity, for both overnight per diem requests from Region III and HEI. Equal to his request for Region III, there was no supporting documentation that verified he stayed in Santa Fe for 37 days straight. Therefore, the Executive Director was reimbursed twice for one trip, amounting to a total of \$8,436.

The total travel and per diem expenses incurred by Region III for the fiscal years ended December 31, 2005, 2006 and 2007 amounted to \$139,390, \$76,838 and \$1,966, respectively.

K. Personal Loan with Promissory Note

In 2005, HEI made a personal loan to VSG, Inc., a company owned by the Executive Director of Region III and HEI. On January 10, 2005, HEI paid U.S. Title Co. in the

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amount of \$300,000. One day after the payment was made to U.S. Title on behalf of the Executive Director, HEI's Board approved the loan on January 11, 2005. The loan appears to have been made for the purpose of purchasing property for the Executive Director.

The promissory note for the loan shows a receivable from the Executive Director and his wife. Accordingly, they were liable to repay the loan to HEI. The first clause of the promissory note states the sum of \$30,000 is due upon execution of the note, which was January 14, 2005.

Repayment of the loan was received in the amount of \$30,000 on January 14, 2005, \$15,000 on August 11, 2005, and \$5,000 on August 16, 2005. Also, the amount of \$275,646, which consisted of remaining principal \$250,000 and interest \$25,646, was received on July 31, 2006 to complete the repayment of the promissory note.

Shortly following his repayment of the loan, the Executive Director received severance pay on August 9, 2006 in the amount of \$11,538. The Executive Director resigned from Region III and HEI effective August 16, 2006. It appears the Executive Director repaid the loan money so that it could be available for his severance pay.

Given certain transactions that occurred prior to and on January 10, 2005, bond money may have been used for the personal loan. On December 22, 2004, Region III drew bond proceeds in the amount of \$300,000. Region III wrote a check to HEI in the amount of \$300,000 on January 10, 2005 for the purpose of purchasing properties in Las Cruces. That same day, HEI paid U.S. Title Co. \$300,000, which represented the personal loan to VSG, Inc. The use of bond money would be in violation of state law, which provides it is unlawful to divert, use or expend any money received from the issuance of bonds for any purpose other than the purpose for which the bonds were issued.

L. GASB Statements Implementations

In May 2007, the GASB issued GASB Statement No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27, which is effective for periods beginning after June 15, 2007. The Statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting

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for Post employment Benefits Plans Other Than Pensions Plans, and No. 45, Accounting Financial Reporting by Employers for Post employment Benefits Other Than Pensions. Region III is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements of the upcoming year.

M. Schedules of Operating Expenses, Region III Housing Authority

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Expenses			
Personnel Salaries	\$ 355,523	\$ 272,347	\$ 84,573
Travel & Per Diem	83,839	42,114	1,399
Professional Services: Accounting	1,499	5,268	-
Professional Services: Auditing	21,000	14,574	-
Professional Services: Legal	25,283	74,445	67
Bond Interest Expense	312,500	-	-
MRCOG Admin Fee	-	-	35,000
Employee Advances	19,699	3,154	-
Office Supplies	14,636	4,218	1,659
Building Maintenance/Repairs	1,807	1,569	813
Utilities	6,763	7,272	5,908
Employee Benefits	146,878	106,478	11,425
Housing Costs	13,302	21,680	6,427
Credit Report Expense	5,201	2,455	818
Interest Expense	17,245	33,801	-
Insurance	465	3,810	-
Lease-Purchase Repairs	6,279	13,121	11,065
Bank of Albuquerque	983,629	-	-
Mortgage Expenses	12,962	9,933	10,835
Loan Payment	5,719	-	5,625
Other Expenses: Phone	10,621	8,865	5,488
Other Expenses: Postage	2,798	2,065	585
Other Expenses: Subscriptions/dues	418	265	-
Depreciation Expense	12,975	12,975	9,507
Reimbursements	9,689	-	-
Real Estate Expense	245	-	887
Miscellaneous Expense	4,948	1,735	1,547
Advertising	2,609	1,240	52
Total Operating Expenses	<u>\$ 2,078,532</u>	<u>\$ 643,384</u>	<u>\$ 193,680</u>

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005, 2006 and 2007

N. Schedules of Operating Expenses, Housing Enterprises, Inc.

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Expenses			
Personnel Salaries	\$ 283,263	\$ 225,124	\$ 16,171
Professional Services: Contract	8,711	1,358	-
Professional Services: Legal	6,461	22,777	-
Excise Tax	402	-	-
Property Taxes	1,382	-	-
Training	631	349	-
Maintenance Service & Supplies	2,611	2,807	-
Licenses & Permits	3,510	2,416	123
Dues and subscriptions	109	1,481	-
Furnitures & Fixtures	326	-	-
Miscellaneous	200	1,330	9
Computer Services/Supplies	7,867	2,689	-
Computers/Peripherals	6,151	-	-
Contractual Services	80,918	163,158	450
Travel & Per Diem	-	34,724	-
Utilities	4,149	10,993	488
Office Supplies	7,588	3,407	-
Building Repairs	173	518	-
Lease-Purchase Repairs	-	3,130	-
Equipment Repairs	21	-	-
Telephone	6,859	3,199	124
Other Expenses: Postage	871	421	-
Travel and Per Diem	55,551	-	567
Depreciation Expense	12,245	13,198	6,599
Purchase Property	6,073	9,000	-
Vehicle Expense	1,104	929	406
Advertising	1,652	-	-
Total Operating Expenses	<u>\$ 498,828</u>	<u>\$ 503,008</u>	<u>\$ 24,937</u>

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Region III's financial statements that is more than inconsequential will not be prevented or detected by Region III's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: items 05-02, 05-03, 05-04, 05-05, 05-06, 05-07, 05-08, 05-09, 05-10, 05-11, 06-01, 07-01 and 07-02.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Region III's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 05-02, 05-03, 05-04, 05-05, 05-07, 05-08, 05-09, 05-10, 05-11, 06-01, 07-01 and 07-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Region III's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 04-01, 05-01, 05-02, 05-03, 05-04, 05-06, 05-08 and 07-03.

Region III's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Region III's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Region III's management, the Board of Directors, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration, the New Mexico State Legislature, and



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Executive Director and Board of Directors
Region III Housing Authority, New Mexico, Inc.
809 Copper Ave.
Albuquerque, New Mexico 87102

We were engaged to audit the financial statements of the business-type activities of the Region III Housing Authority, New Mexico, Inc. (Region III) as of and for the years ended December 31, 2005, 2006 and 2007 and have issued our report thereon dated December 19, 2008. We issued a disclaimer of opinion on the basic financial statements for the fiscal years ended December 31, 2005, 2006 and 2007 because of inadequate accounting records. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Region III's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Region III's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Region III's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the proceeding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor
OFFICE OF THE STATE AUDITOR
December 19, 2008

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

SCHEDULE OF FINDINGS AND AUDIT RESPONSES
DECEMBER 31, 2005, 2006 AND 2007

STATUS OF PRIOR YEAR AUDIT FINDINGS

04-1. FILING OF AUDIT REPORTS – Repeated & Modified.

CURRENT YEAR AUDIT FINDINGS

04-1. Late Audit Reports for Fiscal Years 2005, 2006 and 2007

Condition

Region III did not file its December 31, 2005, 2006 and 2007 audit reports with the Office of the State Auditor by the required deadlines. The report was submitted on December 19, 2008.

Criteria

Section 2.2.2.9.A.(g) NMAC requires the filing of audit reports within 5 months after the fiscal year end.

Cause

Region III did not contract with an auditor until after deadline.

Effect

Financial information is not available for decision making purposes.

Recommendation

Region III should complete preparations for the audit and have the audit fieldwork conducted at an earlier date than in the current year to ensure the auditors have sufficient time to complete the audit report by the specified date.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's Office. Current management requested in September 2006 that the audit firm of Meyners + Co. complete the 2005 audit but the firm withdrew from the audit contract. This concern was brought to the attention of Department of Finance and Administration and Office of the Attorney General. Without the completion of the 2005 audit, the 2006 and 2007 audits could not be completed.

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SCHEDULE OF FINDINGS AND AUDIT RESPONSES
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05-01. Disposition of Capital Assets

Condition

During our test work of capital assets, we found Region III had sold their office building, the land that the building is on, and the office equipment in the building. This amount totaled \$337,469. However, Region III did not notify the Office of the State Auditor (OSA) of the disposition of its property.

Criteria

Sections 13-6-1 and 13-6-2 NMSA 1978, govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state education institutions. At least thirty days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of Region III approving the action must be sent to the OSA.

Effect

Region III is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978.

Cause

Due to the turnover in management staff, Region III was not aware they had to report to the OSA for any disposal of capital assets.

Recommendation

We recommend Region III notify the OSA of any dispositions of capital assets before disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible personal property (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of Region III approving the action.

Management's Response

During the sale of office building, the office furniture, computers and other furnishing were negotiated as part of the sale.

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SCHEDULE OF FINDINGS AND AUDIT RESPONSES
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05-02. No Physical Inventory of Capital Assets

Condition

During our test work of capital assets, we found Region III was not conducting a physical inventory of movable chattels and equipment.

Criteria

Section 12-6-10 NMSA 1978 requires that each agency conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of fiscal year. The agency shall certify the corrections of the inventory after the physical inventory. This certification should be provided to the agency's auditors.

Cause

Due to the turnover in management staff, Region III was unable to locate a physical inventory list or Region III did not conduct an annual physical inventory.

Effect

Region III is in violation of Section 12-6-10 NMSA 1978.

Recommendation

Region III should conduct a physical inventory list each fiscal year end in accordance with Section 12-6-10 NMSA 1978.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-03. Lack of Proper Approval for Long-Term Debt

Condition

During our audit test work of long-term debt (notes payable), we did not find documentation demonstrating that Region III's Board of Directors (Board) formally authorized the acquisition of new loans for Region III. We also did not find documentation demonstrating that the Board delegated the authority to Region III management to acquire new loans for Region III. Total long-term debt amount was \$332,878.

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Criteria

The acquisition of new loans is an exercise of power by Region III that requires formal authorization by the Board pursuant to the Regional Housing Law, Chapter 11, Article 3A.

Effect

Region III did not comply with the provisions of the Regional Housing Law.

Cause

Management of Region III either disregarded the prerequisite of Board authorization for the acquisition of new loans or the management of Region III was not aware of the requirement.

Recommendation

We recommend that the acquisition of new loans for Region III be formally authorized by the Board.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-04. Due To/Due From Other Regional Housing Authorities was not Formally Authorized

Condition

During our audit of Region III, we did not find documentation demonstrating that the amounts loaned to other regional housing authorities by Region III were formally authorized by Region III's Board of Director's (Board). We also did not find documentation demonstrating that the Board delegated the authority to Region III management to make loans to other regional housing authorities on behalf of Region III. In addition, it appears that there were no signed documents by Regions I, IV, and VII for the repayment of these loans. As of December 31, 2007, Regions I, IV and VII owe Region III \$346,457, \$95,258 and \$560,460 respectively.

Criteria

The lending of money to other regional housing authorities is an exercise of power by Region III that requires formal authorization by the Board pursuant to the Regional Housing Law, Chapter 11, Article 3A.

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Effect

Region III did not comply with the provisions of the Regional Housing Law. Without promissory notes or other documentation stipulating repayment, Region III may not be able to recover the loans. Finally, it appears that Region III advanced money to other regional housing authorities using restricted funds.

Cause

Management of Region III either disregarded the prerequisite of Board authorization for lending money or the management of Region III was not aware of the requirement.

Recommendation

We recommend that the lending of money to other regional housing authorities by Region III be formally authorized by the Board. In addition, when making loans, Region III should execute a promissory note or maintain other documentation that stipulates repayment of the loans.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-05. Unauthorized Approval of Expenditures and Missing Payment Vouchers

Condition

During review of the Due to/Due From analysis for fiscal years ended December 31, 2005, 2006 and 2007, we were unable test two of three disbursement items made by Region III on behalf of the Region IV Housing Authority (Region IV) in the amount of \$9,617 and \$46,554 for fiscal years ended December 31, 2005 and 2006 respectively. We were also unable to determine who at Region III authorized the payments for goods and services made on behalf of Region IV. Proper file maintenance was not ensured to adequately document repayment of amounts due from Region IV.

Criteria

Good accounting practices require Region III to properly maintain accurate books and records of Due To/Due From amounts for timely collection of outstanding balances.

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Cause

Due to multiple staff changes, Region III management did not provide adequate file maintenance and implement proper internal control procedures to oversee the repayment schedule for Region IV.

Effect

The ability of Region III's management to monitor and collect amounts due from Region IV is diminished without access to accurate and complete financial information regarding Due To/Due From.

Recommendation

Region III should maintain proper documentation and complete files for all Due To/Due From for receipt of monies and disbursements of monies on behalf of Region IV.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-06. Bond Interest Payments were Not Paid in a Timely Manner

Condition

During our audit test work of bonds payable, we found that Region III was not paying its interest payments for outstanding bond balances to the trustee in the amount of \$612,336.

Criteria

The trust indentures for the Series 2003 and Series 2004 bonds required that Region III's interest payment for each outstanding bond balance should be paid on June 1 and December 1, commencing December 1, 2004.

Effect

Region III is not complying with the terms of the trust indentures for the bonds.

Cause

Due to the change in management of Region III, we were unable to inquire with old management about the reason for the bond interest payments not being paid on time. In addition, in fiscal year ended December 31, 2007, Region III did not have the funds to pay the semi-annual interest payments.

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Recommendation

We recommend Region III properly follow all the bond indenture covenants for their Series 2003 bond and their Series 2004.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-07. Lack of Supporting Documentation for Payroll

Condition

Out of twenty-six payroll documents tested, twenty-six instances of missing time sheets were documented. Also, twenty-six instances of missing pay stubs were documented for a total gross pay of \$44,721.

Criteria

Good accounting practices require proper documentation retention for payroll transactions and establishes requirements and procedures for reporting and certification of employee hours worked.

Effect

Region III may have underpaid or overpaid its employees.

Cause

Region III either did not maintain payroll records or the records were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation

Region III should ensure that all payroll expenditures are accurately prepared, properly documented and maintained for auditing purposes. Region III should also ensure that all required supporting documentation be attached before payment is made.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding. With a change in staff, the location of the original records was difficult to identify.

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05-08. Lack of Proper Authorization of Travel Expenses

Condition

Based on our test work of Region III and HEI, we found that reimbursements for travel expenses were lacking proper authorization when an employee requested travel reimbursements. Based on our test work, employees were signing off on their own travel and per diem request forms. During fiscal years ended December 31, 2005, 2006 and 2007, travel expenses incurred totaled \$139,390, \$76,838 and \$1,966 respectively.

Criteria

Good accounting practices and Section 2.42.2 NMAC, promulgated pursuant to the Per Diem and Mileage Act, Chapter 10, Article 8 NMSA 1978, requires the correct approval of all per diem requests.

Effect

Not having the correct authorization of per diem request could result in the over/under payment of travel reimbursements and expenses.

Cause

It appears that Region III either disregarded or was not aware of the requirements of the Per Diem and Mileage Act and the Act's accompanying administrative rules.

Recommendation

We recommend that travel per diem request forms have proper approval before payments for travel and per diem are made to employees. Region III should follow the requirements of the Per Diem and Mileage Act and the Act's accompanying administrative rules.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

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05-09. Lack of Supporting Documentation for Expenditures

Condition

Out of the seventy-one purchase documents tested for fiscal year 2005 in the amount of \$60,129, we found only twenty-one purchase documents (i.e. invoices, vouchers) or any other supporting documents to document board approval. Out of sixty-two purchase documents tested in fiscal year 2006 in the amount of \$109,887, we found only sixteen purchase documents (i.e. invoices, vouchers) or any other supporting documents to document board approval. Out of the seven purchase documents tested in fiscal year 2007 in the amount of \$607, we found only one purchase document (i.e. invoice, vouchers) or other supporting document to document board approval.

Criteria

Good accounting practices and the Procurement Code, Chapter 13, Article 1 NMSA 1978 requires all commitments to purchase goods or services must be documented by a properly completed purchase document.

Effect

Not having the supporting documentation may result in payments being made for goods or services that were not received.

Cause

Region III either did not maintain the documents or the documents were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation

We recommend that all purchase documents are approved, have attached invoices, and/or other appropriate supporting documentation and certify that goods/services were received before payment is made.

Management's Response

Because so many agencies were involved in reviewing Region III's records it was difficult to maintain adequate control of documents.

05-10. No Cash Reconciliations and Missing Bank Statements

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Condition

During our audit test work of the cash audit program, we found Region III and HEI were not properly maintaining bank reconciliations for each of its depository accounts. For numerous months, Region III and HEI were missing original bank statements to support the bank balances and book balances for each account. Therefore, there was no verifiable way to see if reconciliations were performed.

Criteria

Good accounting practice and internal controls require Region III and HEI to properly maintain accurate books and records of cash balances on a day-to-day basis and requires timely reconciliation of all cash bank accounts.

Cause

The accounting staff failed to properly maintain the books and records for the cash reconciliation process. Also, Region III and HEI did not file and maintain the proper supporting documentation for cash reconciliations. Without the proper supporting documents, we could not trace the bank balances and review the deposits in transit as well as the outstanding checks.

Effect

This caused a delay in the audit test work for the cash audit program because we were required to request the bank statements from each applicable financial institution to prepare proof of cash reconciliations for each account.

Recommendation

We recommend Region III and HEI prepare cash reconciliations for each depository account to reflect the cash transactions to its financial statements. Region III and HEI should maintain and file proper supporting documentation for its cash balances at the opening and closing of each period.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding. Changes in staff made locating original documents difficult.

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05-11. Debt Amounts Exceed Property Costs

Condition

During our audit of Region III we noted that several properties had two types of debt outstanding on them: notes and bond proceeds. In 2005, Region III had 14 properties that had both bonds payable and a notes payable on them. These 14 properties had a historical cost of \$1,289,633, total bonds payable of \$1,260,226 and total notes payable of \$1,364,121 which resulted in excess debt over property value of \$1,334,714. In 2006, Region III still had 12 properties that had both bonds payables and notes payable on them. These 12 properties had a historical cost of \$1,158,988, total bonds payable of \$1,132,026 and total notes payable of \$1,188,384 which resulted in excess debt over property value of \$1,161,422 on the properties. In 2007, Region III still had 11 properties that had both bonds payable and a notes payable on them. These 11 properties had a historical cost of \$1,040,572 and a total bonds payable of \$1,020,254 and total notes payable of \$1,064,523 which resulted in excess debt over property value of \$1,044,209. It appears that Region III was using the double loan funds to fund other activities other than the purchase and rehab of the properties.

Criteria

Region III did not comply with the terms of the bond indenture. Properties should not have more liens on the properties than the actual property is worth.

Effect

Region III is over extending itself on loans and has created a deficit in its property value due to the double loans on several properties.

Cause

There was a lack of oversight related to Region III's drawing of bonds on properties. Additionally, the bond indenture had no provision to secure a lien interest in any property purchased with bond proceeds.

Recommendation

Region III should implement policies and procedures that require that Region III only obtain one payable per property to avoid negative equity on the properties.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

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06-01. Missing Documentation for Payroll

Condition

Out of twenty-one payroll documents tested, all test items were missing time sheets. Also, there were twenty-one instances of missing pay stubs for a total gross pay of \$50,963.

Criteria

Good accounting practices require proper documentation retention for payroll transactions and establishes requirements and procedures for reporting and certification of employee hours worked.

Effect

Region III may have underpaid or overpaid its employees.

Cause

Region III either did not maintain the documents or the documents were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation

Region III should ensure that all payroll expenditures are accurately prepared, properly documented and maintained for auditing purposes. Region III should also ensure that all required supporting documentation be attached before payment is made.

Management's Response

Because so many agencies were involved in reviewing Region III's records it was difficult to maintain adequate control of documents.

07-01. Missing Documentation for Payroll

Condition

Out of seven payroll documents tested, seven instances of missing time sheets were documented. Also, seven instances of missing pay stubs were documented for a total gross pay of \$11,480.

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Criteria

Good accounting practices require proper documentation retention for payroll transactions and establishes requirements and procedures for reporting and certification of employee hours worked.

Effect

Region III may have underpaid or overpaid its employees.

Cause

Region III either did not maintain payroll records or the records were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation

Region III should ensure that all payroll expenditures are accurately prepared, properly documented and maintained for auditing purposes. Region III should also ensure that all required supporting documentation be attached before payment is made.

Management's Response

Because so many agencies were involved in reviewing Region III's records it was difficult to maintain adequate control of documents.

07-02. Improper Recording of Lease-Purchase Notes Payable

Condition

During our analytical review of the general ledger, we noted that the notes payable balances for the lease-purchase properties were not being reduced by the principal payments received. Region III does not receive the payment directly. Rather, Region III uses an outside service that receives the payments and sends them to the mortgager.

Criteria

Generally accepted accounting principles require the accurate recording of all transactions in the general ledger.

Cause

There was a lack of oversight of Region III's (HEI) lease-purchase notes payable.

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Effect

Not posting payments makes it difficult to accurately account for the notes payable balances on the related properties. Notes payable for the lease-purchase properties were overstated because the principal payments were not recorded.

Recommendation

Region III should ensure that all payments are properly recorded in the general ledger.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

07-03. Disposition of Capital Assets

Condition

During our test work of capital assets, we found Region III had sold three vehicles in the total amount of \$26,080. However, Region III did not notify the Office of the State Auditor (OSA) of the disposition of its property.

Criteria

Sections 13-6-1 and 13-6-2 NMSA 1978, govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state education institutions. At least thirty days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of Region III approving the action must be sent to the OSA.

Effect

Region III is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978.

Cause

Due to the turnover in management staff, Region III was not aware they had to report to the OSA for any disposal of capital assets.

Recommendation

We recommend Region III notify the OSA of any dispositions of capital assets before disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible personal property (1) designate a committee of at least three officials of the governing authority to approve and

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oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of Region III approving the action.

Management's Response

During the sale of three vehicles due to the turnover in management staff Region III was not aware they had to report to the SAO for disposal of capital assets.

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EXIT CONFERENCE
DECEMBER 31, 2005, 2006 AND 2007

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor (OSA). However, the contents remain the responsibility of Region III.

Exit Conference

On December 19, 2008 an exit conference was held at Region III's Office with Mr. Dewey Cave, Director of Planning and General Services of the Mid-Region Council of Governments. Representing the Office of the State Auditor was Chan Kim, CPA, Audit Manager. The results of the audit and the contents of this report were discussed.

